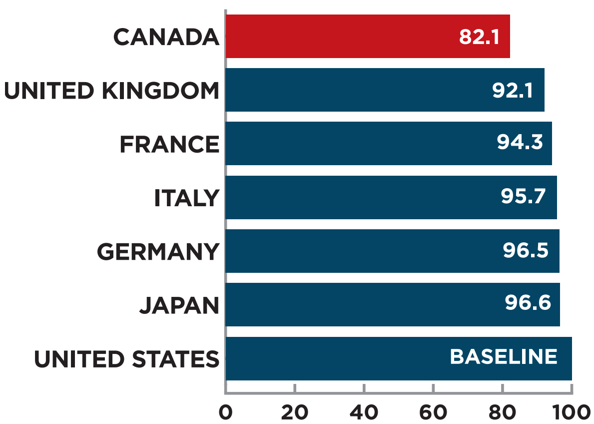
CANADA'S COST AND TAX ADVANTAGES – FINANCIAL SERVICES

Canada has one of the strongest financial services sectors in the world, contributing $106 billion to GDP and employing 703,000 Canadians in 2013. A competitive environment for business costs and business taxes in Canada helps to support this industry.

In its 2014 study of global business locations, *Competitive Alternatives*[1], KPMG found that Canada offers the lowest business cost structure and the lowest business tax burden among the G-7 countries for international financial services operations. Details of these findings are presented below, reflecting business costs and taxes for a firm providing foreign exchange, funds management, securities trading and/or treasury services to international clients.

INTERNATIONAL FINANCIAL SERVICES COST INDEX, G-7 RESULTS (U.S. = 100.0)



CANADA'S COST HIGHLIGHTS

- International financial services firms based in Canada benefit from total labour costs that are 20.5 percent lower than equivalent costs for similar firms in the U.S. Competitive salary levels, lower statutory labour costs and lower healthcare costs for employees all contribute to the savings in Canada.
- Canada's leading cities offer downtown office leasing costs that are very affordable relative to most major cities in the G-7, with savings of 30 percent compared to the G-7 average for this international financial services firm.
- Taxes represent the final component of Canada's cost advantage, as detailed on the next page.
- When all cost factors are considered, Canada has the lowest business cost structure among all G-7 countries, with total business costs 17.9 percent below the U.S. and 10.0 percentage points lower than in the U.K.

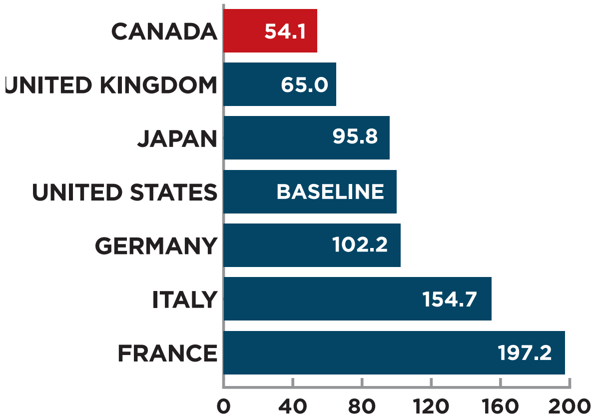
IMPACT OF EXCHANGE RATES

The 2014 edition of *Competitive Alternatives* was released in March 2014. The results from that study, including the results reported here, reflect exchange rates that were in effect in the fourth quarter of 2013. These results are sensitive to exchange rate changes.

During 2014, the U.S. dollar appreciated in value relative to most global currencies, including the Canadian dollar. For the model financial services firm, Canada's cost advantage relative to the United States **increases from 17.9 percent to 25.6 percent** at January 2015 exchange rates. The stronger U.S. dollar significantly increases Canada's cost advantage for international financial services firms.

[1] *Competitive Alternatives, KPMG's Guide to International Business Location Costs* and *Competitive Alternatives, Special Report: Focus on Tax*. Available for download from CompetitiveAlternatives.com.

INTERNATIONAL FINANCIAL SERVICES TOTAL TAX INDEX[3], G-7 RESULTS (U.S. = 100.)



LOW-COST HOT SPOTS

Business cost index of select Canadian cities (U.S. = 100):

A	Halifax	75.7
B	Montréal	79.4
C	Vancouver	82.6
D	Edmonton	83.0
E	Toronto	84.7

CANADA'S TAX HIGHLIGHTS[2]

- For this model firm, eligibility for a targeted, refundable tax credit for international financial services jobs in Montréal helps to reduce Canada's effective rate of corporate income tax to 18.6 percent, the lowest among the G-7 countries.
- Canada's statutory labour costs are the lowest in the G-7 and its costs for other corporate taxes are also low, ranking third among the G-7 countries.
- Overall, Canada's total tax index for this international financial services firm is 54.1 – the lowest among the G-7 countries and reflecting total tax costs 45.9 percent lower than in the United States and 10.9 percentage points lower than in the United Kingdom.

SUMMARY OF OPERATING PARAMETERS

BUSINESS OPERATION: INTERNATIONAL FINANCIAL SERVICES	
Facilities requirements	
Class A downtown office space leased (1,301 m²)	14,000 ft²
Workforce	
Management	8
Sales and administration	34
Dedicated product development	—
Other	8
Total employees	50
Other initial investment requirements	
Office equipment – U.S. $'000	$500
Equity financing – % of project costs	100%
Energy requirements	
Electricity: monthly consumption	18,000 kWh
Other annual operating characteristics	
Sales at full production – U.S. $'000	**
Other operating costs – % of sales	$3,000

** This operation represents a cost center. For taxation purposes, corporate revenue allocated to the operation is assumed to be cost-of-operation, plus 18% markup.

[2] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.

[3] Calculations by MMK Consulting Inc. based on detailed data from *Competitive Alternatives, Special Report: Focus on Tax* as that report only published sector-level tax results.